



# RETURNING TO WORK AFTER RETIREMENT

**Presented to the Public Retirement Systems Committee**

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**January 30, 2012**

**I<sup>OWA</sup>PERS<sup>®</sup>**  
*Working Today for Your Tomorrow*

## IPERS' DEFINITION OF RETIREMENT

- IPERS' definition of retirement means you have applied for and begun receiving IPERS retirement benefits.
  - You must live into your first month of entitlement to receive benefits regardless of your age. To qualify for IPERS benefits you must terminate all employment with all covered employers (you do not need to stop working if you are age 70 or older) and file a properly completed application for benefits, which IPERS must approve.

### IPERS' RULES FOR RETIREMENT

#### Bona Fide Retirement – REQUIRED

- Mandated by the Internal Revenue Service and the Iowa Code
- Must sever all IPERS-covered employment for the first four months of receiving retirement benefits.
- Cannot work for an employer that participates in IPERS for the first month of those four months, whether or not the position is covered by IPERS.

**Penalty:** Benefit application is cancelled.

**Note:** The only exception to the four-month requirement is for certain licensed health care professionals in some public hospitals. The Iowa Legislature in 2006 set a one-month bona fide retirement period for eligible licensed health care professionals working for these public hospitals through June 30, 2010, and later extended that to June 30, 2012.

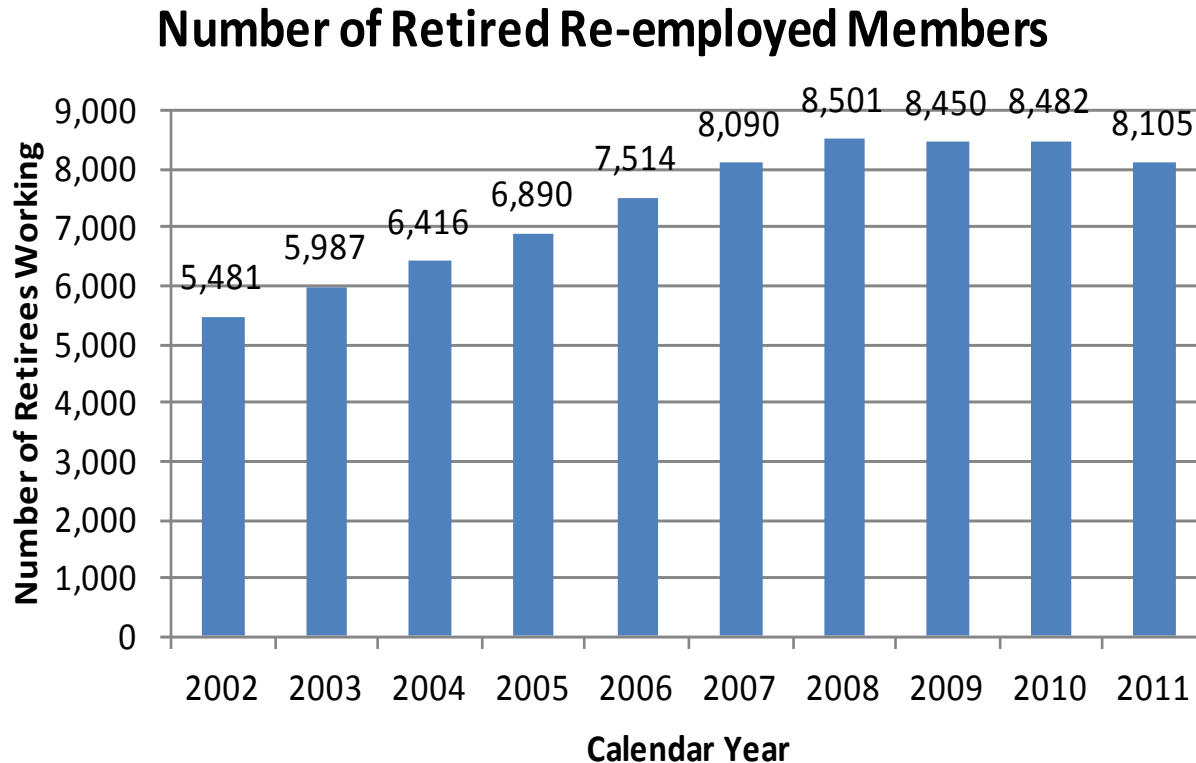
### EARNINGS LIMITATIONS

For members who are age 65 and over, there is no IPERS earning limit. For members under age 65, the earnings limit is \$30,000 or the current Social Security limit, whichever is higher.

- A member's IPERS benefit will be reduced **by 50 cents for each dollar** the member earns over the earnings limit for the remainder of the calendar year. The earnings limit is determined annually, using the calendar year.
- The limitation on earnings does not apply to members who are elected to public office.

A member returning to work in an IPERS-covered job will again start contributing to IPERS and accrue service credits. However, the person cannot receive any additional benefits until the person again terminates employment and completes another bona fide retirement period.

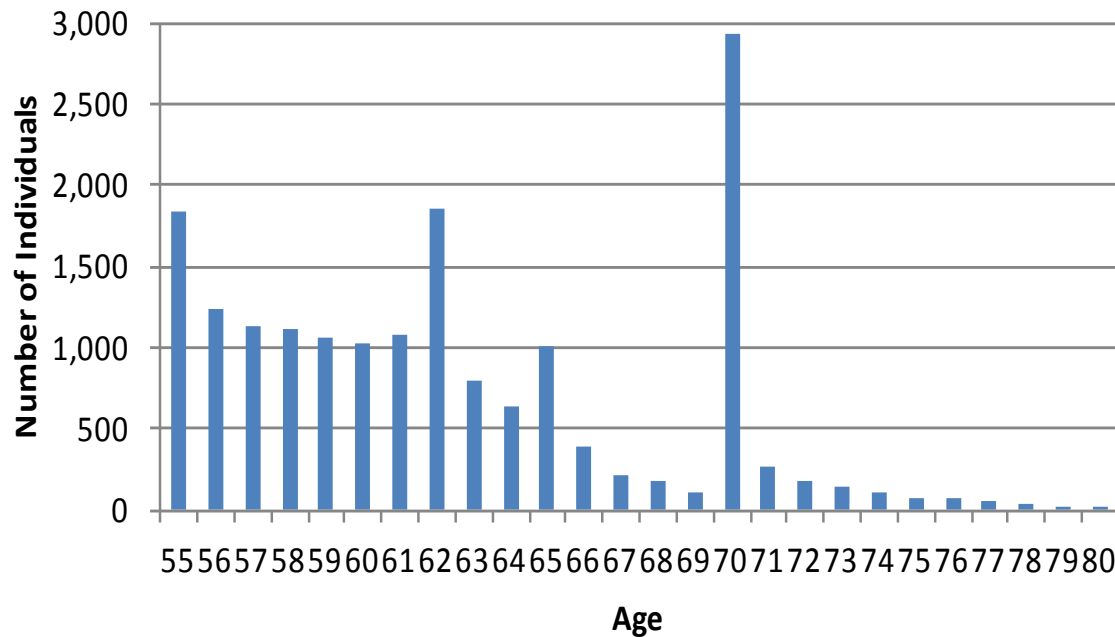
## BY THE CALENDAR YEAR



Represents those retirees who were re-employed and worked during any part of calendar years 2002 through 2011.

# AGE AT RETIREMENT

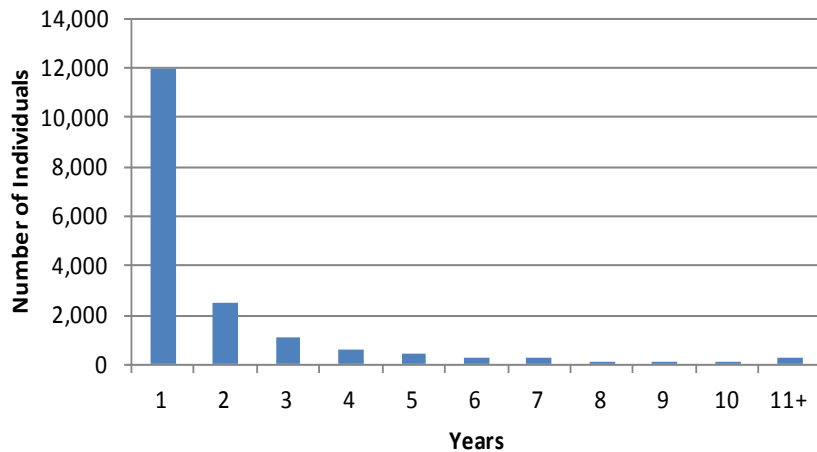
## Age at Retirement



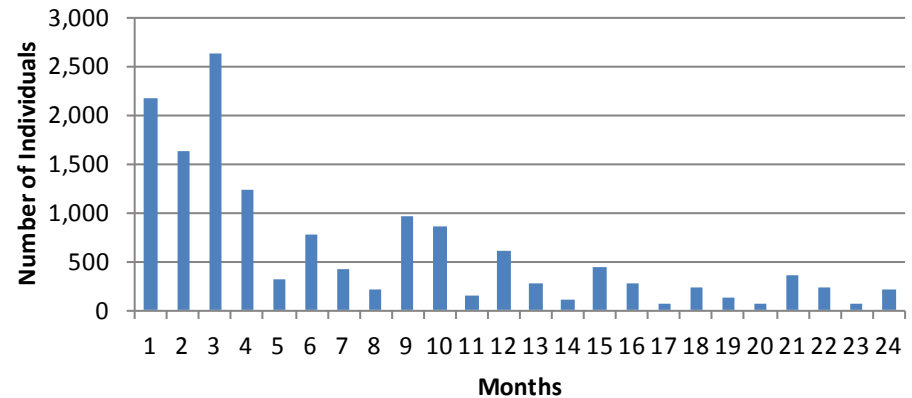
Not surprising, a significant number of these individuals are age 70, and are likely taking advantage of the provision which permits them to begin receiving retirement benefits while continuing to work in covered employment.

# HOW LONG BEFORE THEY RETURN?

## Time Between Employment



## Time Between Employment (Returning Within 2 years)



Most retirees who return to covered employment do so within one year; many within four months of retirement.

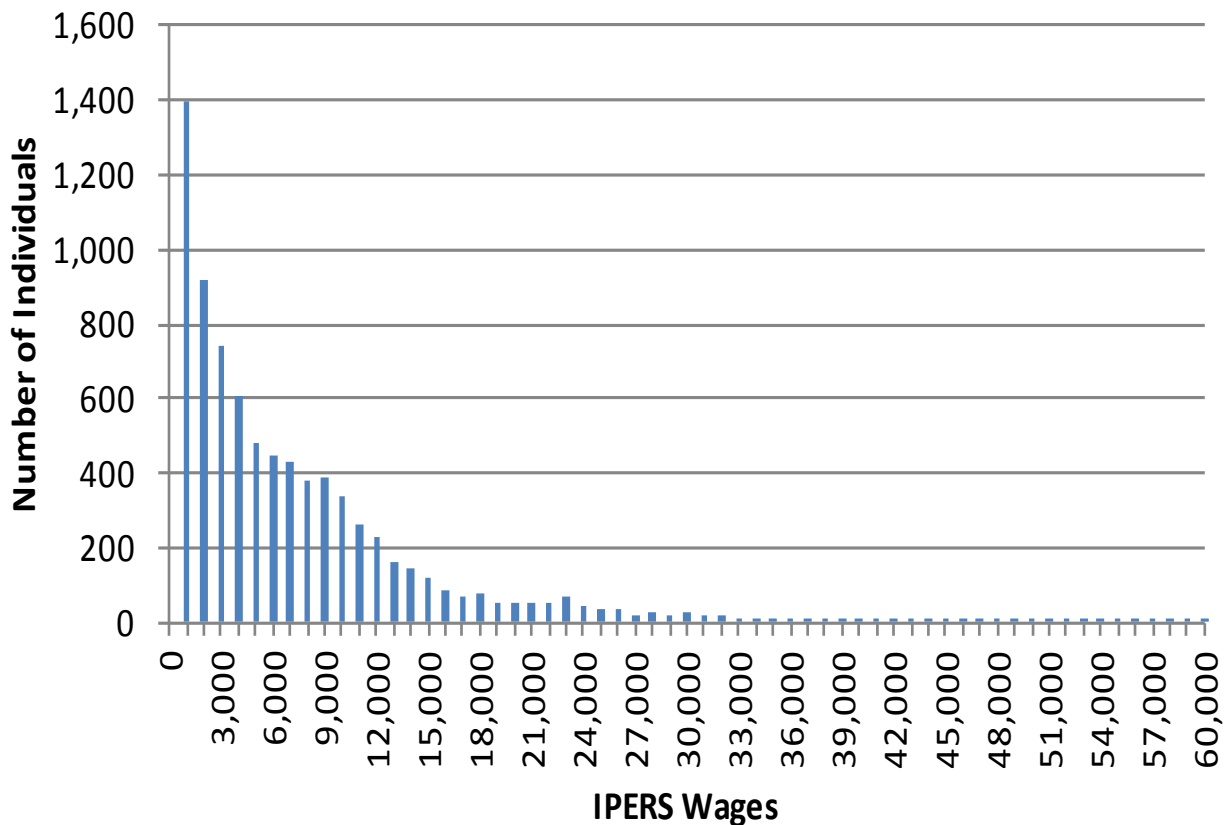
Note: Data includes age 70 members, LHCP members and reflects quarterly wage reporting.

## BY EMPLOYER TYPE

|         | Same<br>Employer | Similar<br>Employer | Different<br>Employer | Total         |
|---------|------------------|---------------------|-----------------------|---------------|
| State   | 478              | 106                 | 511                   | 1,095         |
| Schools | 9,521            | 1,787               | 911                   | 12,219        |
| Other   | 3,347            | 618                 | 505                   | 4,470         |
| Total   | <u>13,346</u>    | <u>2,511</u>        | <u>1,927</u>          | <u>17,784</u> |
|         | 75%              | 14%                 | 11%                   | 100%          |

75% return to work for the same employer.

# REEMPLOYMENT WAGES



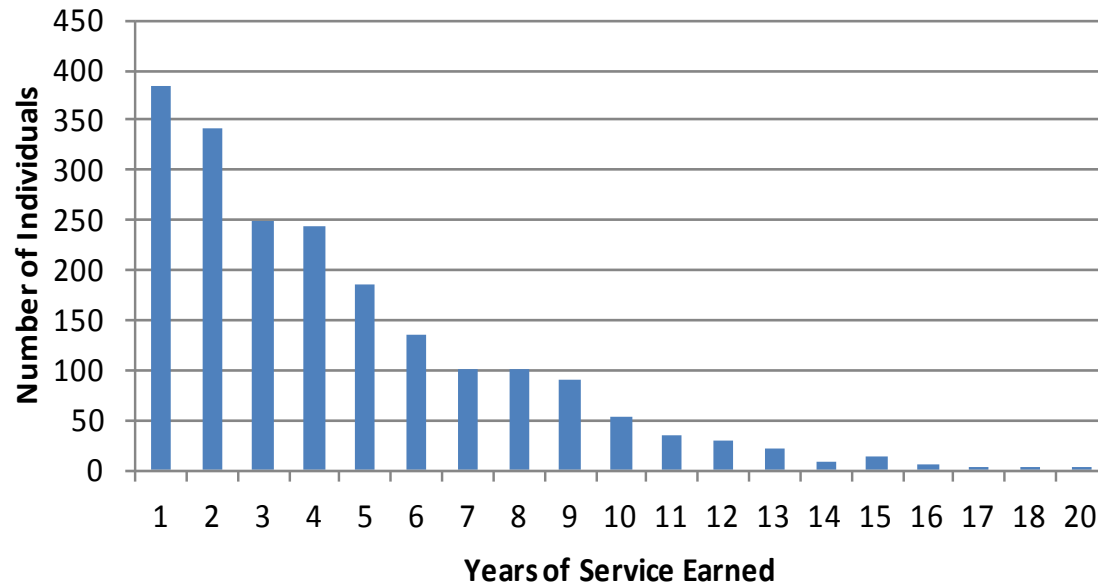
96% of the rehired group earned below \$30,000

More than 50% of the retirees earned less than \$5,000

More than 75% earned \$10,000 or less

# LENGTH OF REEMPLOYMENT

## Service During Re-employment



50% of the retirees who return to work remain in IPERS-covered employment for three years or less.

70% of retirees work no more than 5 years.



## COST IMPACT ON IPERS

Dependent on multiple factors:

- Whether members retire earlier than they would absent the return to work provision
- Which members elect to retire earlier
- How long retired reemployed members work after returning to covered employment
- Benefit earned during reemployment
- Contributions by member and employer during reemployment period

## CHALLENGES IN QUANTIFYING COST IMPACT

Typical actuarial measurement is comparison of cost with and without the provision

- Current provisions have been in place for many years so assumptions reflect the impact of the current rules
- Member behavior absent the current provisions is unknown
- Cost tend to be more general in nature based on professional judgment

## IMPACT OF EARLIER RETIREMENT

In general, the earlier a member retires with unreduced benefits, the higher the cost to the system.

- Less time to accumulate funds to pay the benefits
- Longer payout period for benefits

If working after retirement provisions encourage members to retire sooner, it results in higher costs to the system.

## REEMPLOYMENT BENEFIT

### Less than 4 years (7 years after 7/1/2012)

Employee and employer contributions with interest

### More than 4 years (7 years after 7/1/2012)

Employee and employer contribution with interest OR

Monthly benefit based on service and salary in the reemployment period

### Age 70 or older in service distribution

Receive monthly retirement check

Benefit recalculated after 30 day break in employment

## IMPACT ON UAL

Contributions received on retired reemployed are the same as all other members.

The benefit paid on most reemployment periods is a return of all employee and employer contributions, with interest.

As a result:

- No UAL payment on payroll of retired/reemployed members
- Estimated impact: 4.29% of pay or \$3.3 million for FY2013
- Ongoing cost each year

## IMPACT ON NORMAL COST

Generally, cost of providing monthly benefits is higher as an employee ages.

In the most recent experience study, estimated cost impact of retired/reemployed on overall normal cost rate was 0.06%

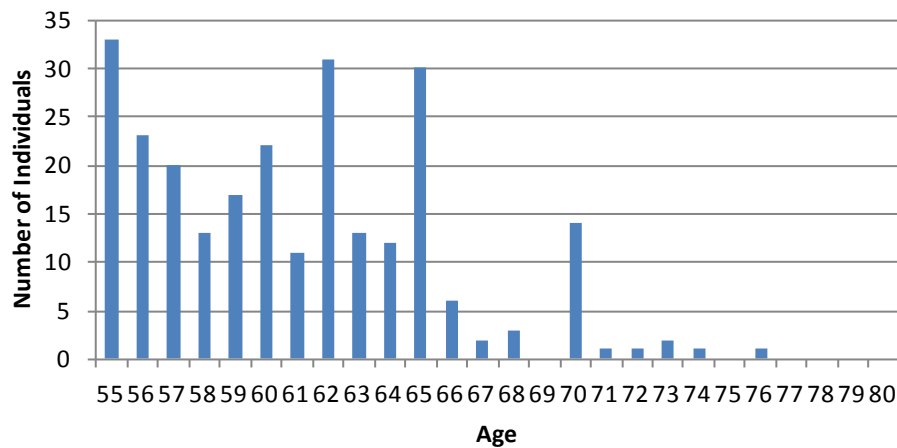
- Dollar impact on FY13 covered payroll is about \$4 million
- Coincidentally about the same amount as UAL payments missed

This results in a shift of the cost from the retired reemployed members to other active members.

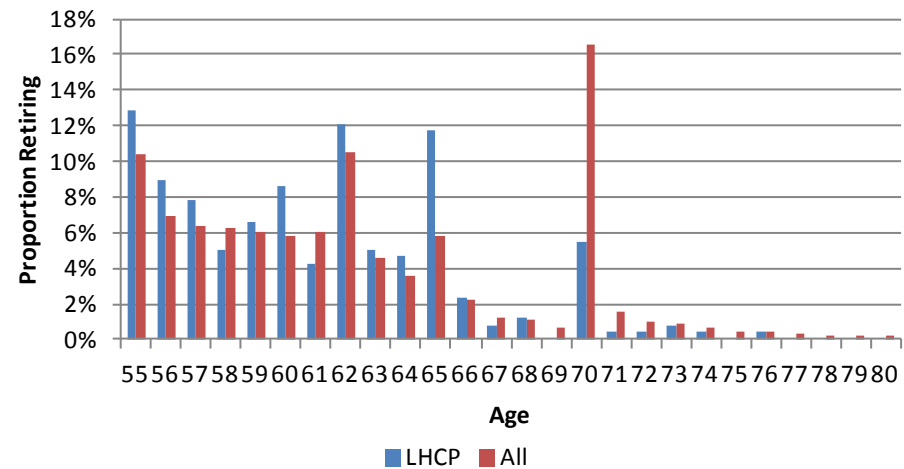
# LICENSED HEALTH CARE PROFESSIONALS (LHCP)

- Retiring at younger ages
- As a whole, this group is also younger than the return-to-work group
- Earn twice as much as other retired re-employed
- Represent a higher portion of new retirees (23.6% vs. 15.9%)

## Age at Retirement - LHCP



## Comparison of Retirement Ages



- 89% of the LHCP retirees return to the same employer.

## POTENTIAL REVISIONS

- Replace current benefits available to the standard refund value.
  - Return of 100% of employee's contributions with interest and only a portion of employer's contributions.
  - This will offset the loss of payment towards the UAL.
- Eliminate the ability to draw pension while still working when member turns age 70.
  - Must be cleared with tax counsel to determine viability.
- Apply earnings limitation without regard to age.
- Suspend benefits when earnings limitations reached.
- Allow LHCP exemption to sunset.

*Note: IPERS' Benefits Advisory Committee has not had the opportunity to review this report.*



# COMPARABLE RULES OF OTHER PUBLIC RETIREMENT SYSTEMS

## **Waiting period**

- Range from 15 days to one-year
- Length may depend on the member's age at retirement

## **Benefits during period of reemployment**

- Reduced or suspended when either earnings limit or hour limit reached
- Impact may depend on member's age at retirement or reemployment age

## **Contributions during reemployment**

- From employer only – if member does not earn additional DB benefit
- From both – to be paid as a DB benefit, DC benefit or refund at re-retirement
- Additional contribution from employer

# Questions? *Contact us.*

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